

**Before the
Federal Communications Commission
Washington, D.C. 20554**

In the Matter of)	
)	
Connect America Fund)	WC Docket No. 10-90
)	
A National Broadband Plan for Our Future)	GN Docket No. 09-51
)	
High-Cost Universal Service Support)	WC Docket No. 05-337

NOTICE OF INQUIRY AND NOTICE OF PROPOSED RULEMAKING

Adopted: April 21, 2010

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FIDELITY TELEPHONE COMPANY INITIAL COMMENTS

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July 12, 2010

I. INTRODUCTION

Fidelity Telephone Company (Fidelity) submits these comments in response to the Federal Communications Commission's (FCC) Notice of Inquiry and Notice of Proposed Rulemaking, FCC 10-58, "In the Matter of Connect America Fund", WC Docket No. 10-90, "A National Broadband Plan for Our Future", GN Docket No. 09-51, and "High-Cost Universal Service Support", WC Docket 05-337.

Fidelity believes that the goals within the National Broadband Plan (NBP) are admirable. However, the means of achieving these goals include initiatives that are a major concern for the rural Incumbent Local Exchange Carriers (ILECs). Most rural ILECs have already implemented broadband within their service areas, or are in the process of completing projects for broadband.

Fidelity is addressing the following: (1) use of hypothetical models; (2) "reverse auctions"; (3) incentive regulation for rate-of-return carriers; (4) the digital divide, and; (5) proposed changes to the legacy Universal Service Fund support mechanisms.

Fidelity is specifically providing financial information that addresses the following key question from Paragraph 53 of the FCC 10-58 Order:

"To the extent that any commenter believes that these proposals, or the proposal to cap legacy high-cost support, would negatively affect affordable voice services for customers, we would encourage such a commenter to identify all assumptions and to provide data, including information on network investment plans over the next five years and free cash flows, to support that position".

Fidelity includes with these comments and the financial information to demonstrate how the proposed changes to the legacy Universal Service Fund (USF) are not favorable for the continuance of universal service in rural areas without sufficient

Fidelity Telephone Company
WC Docket No. 10-90; GN Docket No. 09-51; WC Docket No. 05-337
July 12, 2010

replacement support and may jeopardize the financial viability of Fidelity Telephone Company.

II. BACKGROUND

As of December 31, 2009, Fidelity is a rural local exchange company in business since the 1940s serving 13,756 one-party residential, single-line and multi-line business lines, including 340 Life-line customers, in the State of Missouri from our office in Sullivan. We have a staff of 119 employees, and we offer a wide array of communications services, including local wireline voice, long distance, video and broadband services. We serve over 5,500 DSL subscribers at speeds up to 10 Mbps.

Fidelity's local exchange area covers approximately 680 square miles, with 2,364 miles of buried fiber and cable.

Fidelity is a company that is responsive to the needs of our customers and takes pride in providing quality voice and data services that meet the needs of our customers because our customers are also our neighbors.

III. USE OF HYPOTHETICAL MODELS

Fidelity is opposed to the use of hypothetical models because "forward-looking cost models will contain arbitrary assumptions, standards and formulas to achieve a desired economic result contrary to real life operating costs and market conditions".¹

¹ Comments of Warinner, Gesinger & Associates, LLC, FCC 10-58 filed July 12, 2010, paragraph VIII National Broadband Model, Cost Model (para. 14-16), 1.

Fidelity Telephone Company
WC Docket No. 10-90; GN Docket No. 09-51; WC Docket No. 05-337
July 12, 2010

Fidelity believes that actual costs have served the rural ILECs over the years. In fact, the use of actual costs “has proven to be the most accurate, auditable and equitable method of bringing broadband to rural America. The use of actual costs and rate of return regulation has ensured that the MoSTCG (Missouri Small Telephone Company Group) companies are compensated for their actual costs of providing service.”²

Hypothetical cost models are often unreliable when applied to rural areas like Fidelity with one wire center. Fidelity agrees that “developing a new forward-looking cost model for rural areas is unnecessary because the current system of funding is working.”³

IV. REVERSE AUCTIONS

Reverse auctions will lead to uncertainty for rural ILEC’s, which will then lead to less spending on capital investments and further lead to deterioration of voice and broadband quality of service. Fidelity is opposed to reverse auctions because “any proposal to require reverse auctions for rural ILECs would contradict the Telecommunications Act’s goal of providing specific, predictable and sufficient USF support”.⁴

² Comments of The Missouri Small Telephone Company Group, FCC 10-58, filed July 12, 2010, paragraph II.1

³ Comments of The Missouri Small Telephone Company Group, FCC 10-58, filed July 12, 2010, paragraph II, 2

⁴ Comments of The Missouri Small Telephone Company Group, FCC 10-58, filed July 12, 2010, paragraph II, 3 a

V. INCENTIVE REGULATION

Rate of return carriers, such as Fidelity, should not be forced into incentive regulation. “There is no data to suggest that more competition and ‘incentive’ regulation will do a better job of bringing broadband to rural Missouri than the MoSTCG companies have done under rate of return regulation. In fact, the Missouri Broadband Report recognizes that the MoSTCG companies (under rate of return regulation with USF support) have done a superior job of bringing broadband to rural Missouri.”⁵ Rate of return regulation has worked well for rural Missouri consumers; there just needs to be a few tweaks to the legacy USF programs to address the FCC’s broadband initiatives which will allow for proliferation of broadband services in unserved and underserved areas. Furthermore, any tweak to the legacy USF programs needs to include support for operating, maintaining and upgrading existing broadband facilities.

VI. DIGITAL DIVIDE

Fidelity questions the proposal to target only 4 Mbps of actual download speed and 1 Mbps of actual upload speed in rural areas, yet proposes much higher speeds in the urban areas. This proposal “would create unlawful and unreasonable digital divide” because this would not be “reasonably comparable as required by the Telecommunication Act.”⁶ Fidelity opposes this digital divide because this could make our rural customers the “have nots” while customers in close communities would be the “haves”, and we fear

⁵ Comments of The Missouri Small Telephone Company Group, FCC 10-58, filed July 12, 2010, paragraph II B. 3

⁶ Comments of the Missouri Small Telephone Company Group, FCC 10-28, filed July 12, 2010, paragraph II. C

that our rural community will fall behind in terms of economic development and job creation, educational opportunities, advances in health care and quality of life. This large disparity is simply unacceptable, and the FCC should not support this policy.

VII. PROPOSED CHANGES TO LEGACY USF SUPPORT MECHANISMS

Fidelity agrees that USF should be targeted towards broadband investment, but objects to proposals that would eliminate high cost support without sufficient revenue replacement because of the impact to our financial stability. We provide the following information to the FCC in support of this statement.

A. REVENUES

Fidelity received its 2009 revenues from the following sources: our end user customers, including, Local Services, End User Common Line (EUCL), Federal End User Charge (FUSC), Internet, Network Access Billed to Carriers, Resold Long Distance and Miscellaneous Revenue, and Federal USF which includes Local Switching Support (LSS), Interstate Common Line Support (ICLS), and High Cost Loop (HCL) revenue. The EUCL, LSS, and ICLS support amounts are actually part of interstate revenue requirement.

Based on 2009's 13,756 access lines, the 2009 revenues per line, per month for the above sources are the following: End User \$43.98, Network Access \$46.59, Long Distance and Miscellaneous \$15.31, and Federal USF \$12.85. USF support is 10.82% of

Fidelity Telephone Company
WC Docket No. 10-90; GN Docket No. 09-51; WC Docket No. 05-337
July 12, 2010

Fidelity's revenue. *Exhibit I, "2009 Monthly Revenue Source Per Line"*, provides a pie chart for this information.

Exhibit I also shows the effect of the FCC's proposals by year 2015 for phasing down Federal USF support, as well as the decreasing minute-of-use access revenue. The data for 2015 represents the half way point in the FCC's proposal to eliminate minute-of-use charges by the year 2020. It is anticipated that Fidelity's access lines will also decrease to 11,177 by 2015.

The proposed changes to the existing revenue sources are anticipated to produce the following revenue per line, per month: End User \$51.39, Network Access \$28.67, Long Distance and Miscellaneous \$10.89, and Federal USF \$7.91. The 2015 revenue shortfall between "Business as Usual" and the NBP is \$18.20 per line per month, or 15.55% that will need to be supported from unknown sources for Fidelity to maintain the quality voice and data services that has been provided to our customers and is expected to be provided by our customers.

Exhibit II, "Comparison of Current ICLS Projection vs. Frozen at 2010 Levels Per Line", provides a bar chart to display the comparison of ICLS between the current projection and frozen at the 2010 levels of \$1,624,944 based on \$122.35 per line. As the lines decrease, and using the 2010 level of support, the difference between unfrozen and frozen will be (\$79,529) in 2011 and (\$673,341) by 2016.

ICLS represents total network loop costs that are maintained even when lines are lost. As lines decrease and less subscriber line charges are applied to the reduced number

of lines, the amount of ICLS per line would need to be increased in order for the total study area ICLS costs to be fully recovered.

B. BENCHMARK END USER RATES

Based on 2009 levels of revenues with the average internet revenue calculated on DSL lines, and assuming all 13,756 lines subscribe to local services and long distance, Fidelity received \$79.90 per month, per line. Exhibit I indicates end user and miscellaneous revenues at \$59.29, but this represents end user revenue based on total access lines. For purposes of benchmarking, we used the \$79.90.

Exhibit III, "Monthly Revenue Shortfall from Covering Expenses at Comparable Rural/Urban/Wireless End User Benchmark Rates", provides a comparison between the amount from Fidelity's end users of \$79.90 to an actual AT&T's urban voice-line statement of \$72.53 and an actual Sprint's wireless statement of \$69.24. Using Fidelity's 2010 total company expenses less special access and miscellaneous revenue, the per line, per month expense amount that would not be recovered with end user revenue would be \$35.86 at Fidelity's revenue per line rate; \$32.51 at the urban wireline rate; and \$19.70 at the wireless rate. This shortfall does not include an amount for a return on investment, and it also does not contemplate how many additional end users would discontinue their wireline local service if per line rates increased significantly.

The information provided in Exhibit III demonstrates that Fidelity's rates would not recover expenses from end users nor would the rates of an urban wireline carrier or a

wireless carrier. The revenue generated by only end users would not be sufficient to cover the expenses necessary to provide quality services in our rural area.

C. INVESTMENTS FOR BROADBAND

Exhibit IV, “Projected Net Investment”, is a bar chart that provides the anticipated net investment. Over the years, Fidelity has steadily upgraded its network by adding fiber deeper into the network and by adding broadband equipment with the capability of reaching faster speeds and more subscribers. Currently, Fidelity reaches approximately 96% of its area households and businesses with speeds of at least 768 kbps. Fidelity hopes to reach 100% capability over the next several years.

Estimating the future HCL support has always been difficult as the NACPL has been a “best guess” amount. A cost consulting firm, Warinner, Gesinger and Associates, LLC (WGA) estimated their NACPL at \$453.81 for calendar year 2009 (for payment year 2011) and increased this by \$32.50 per year through 2014 to \$616.31 (for payment year 2016). The National Exchange Carrier Association (NECA) in June 2010, for the first time, released its projected NACPL for 2009 at \$464.78 which due to the negative rural growth factor of minus 3.5%, increases to \$743.74 by 2015.

D. COMPARISON OF PROJECTED HIGH COST LOOP SUPPORT

The Exhibit V chart, *“Projected High Cost Loop Support”* provides the amount of HCL support using WGA’s NACPL; the HCL support using NECA’s NACPL, and the amount of HCL support if frozen at 2010 levels. Beginning in 2011, Fidelity no longer

Fidelity Telephone Company
WC Docket No. 10-90; GN Docket No. 09-51; WC Docket No. 05-337
July 12, 2010

qualifies for HCL support. For Fidelity, based on the current USF HCL algorithm and the increasing NACPL, if the FCC were to freeze HCL support at 2010 levels, Fidelity would actually benefit from this option fro HCL.

E. CASH FLOW PROJECTION

Presented in *Exhibit VI, "Cash Flow Projection"*, is information related to cash-flow through 2016 comparing "Business as Usual" to the impact of the proposals associated with the NBP changes. The decrease in cash-flow for "Business as Usual" is directly related to the increase in the NACPL which reduces the amount of anticipated HCL support.

The "Business as Usual" revenues were adjusted to provide the NBP cash-flow revenue amounts as follows: (1) ICLS revenue was based on the 2010 support per line (Exhibit II) and, (2) HCL support, state and federal access was phased down by 10% per year (NBP support for Exhibit VI). The NBP revenues do not include revenue from an unknown source to replace the lost revenue resulting from decreases in access and the changes in legacy USF support. The NBP revenue changes result in a negative cash-flow by 2015 reaching almost two million dollars by 2016.

The NBP's proposals regarding phasing down, or eliminating traditional access revenues, will have a negative impact on Fidelity. Fidelity receives 39.24% of its revenue from state and federal access, of the revenues that comprise this revenue stream, 26.22% is from interstate special access and 50.22%, or \$23.40 per month, per line is from intrastate revenue.

Fidelity Telephone Company
WC Docket No. 10-90; GN Docket No. 09-51; WC Docket No. 05-337
July 12, 2010

Missouri does not have a State USF support fund for the rural ILECs even though the Missouri Public Service Commission (MoPSC) and the State Legislature have attempted, over the years, to lower state access revenues to potentially mirror the federal rates. This effort has not been successful with the rural ILECs because, without a revenue replacement mechanism for the lost intrastate access and without placing the entire amount required on the end user, the industry, the MoPSC, and the state representatives have not been able to reach an agreement for the rural ILECs. The major roadblock was ensuring that the lowering of access rates would not financially harm the rural ILECs who serve in high-cost areas with limited customers, and that the assessment to end users for a State USF would be minimal.

Federal access rates are lower because the End User Common Line (EUCL) was implemented by the FCC to remove access charges paid by carriers and recover a portion of this from the end user. The EUCL and the Interstate Common Line Charge (ICLS) support amount, also implemented by the FCC to remove access charges paid by carriers, allow cost companies to recover their interstate Carrier Common Line (CCL) revenue requirement.

If the FCC adopts the NBP proposed elimination of access charges or takes the rate to an arbitrary level of say \$0.0007, Fidelity will require a replacement revenue source for both interstate and state access revenue in order to maintain their current level of services. Fidelity assumes that the replacement of intrastate access may also require approval of the State Commissions.

Fidelity Telephone Company
WC Docket No. 10-90; GN Docket No. 09-51; WC Docket No. 05-337
July 12, 2010

VIII. OPINION SUMMARY

Fidelity's revenue is generated from end users, carriers and universal support (Exhibit I). Even if local rates are set at comparable rates to an urban landline provider or a wireless provider, the revenues generated on Fidelity's lines will not cover our expenses (Exhibit III).

Fidelity presents the financial documentation to the FCC to support our opinion that the proposals to cap the legacy high-cost support at 2010 levels, and phase-out the legacy high-cost funding by 2020 will negatively affect the affordable and dependable voice and data services for our customers. It is important for the FCC to ensure that any replacement support will be adequate to support the goals of universal service.

Fidelity Telephone Company respectfully requests that the FCC consider the impact to the rural companies in its changes to the legacy USF support mechanisms as the FCC adopts policies that may cap the legacy high-cost programs or replace it with the Connect America Fund (CAF). As our financial information demonstrates, Fidelity serves a high-cost area and to achieve the universal service goal of affordable, comparable rates, Fidelity requires USF or CAF and a replacement for federal and state access revenues in order to maintain affordable services to our customers.

Furthermore, Fidelity opposes 1) the use of hypothetical cost models for rural areas; 2) the use of reverse auctions for rural areas; 3) the implementation of incentive regulation over rate of return regulation; and 4) the creation of a "digital divide".

Fidelity Telephone Company
WC Docket No. 10-90; GN Docket No. 09-51; WC Docket No. 05-337
July 12, 2010

In conclusion, if the proposals, as set forth by the FCC in the Notice of Proposed Rulemaking are implemented without an adequate and sustainable revenue replacement, Fidelity Telephone Company may no longer be financially viable.

Respectfully submitted,

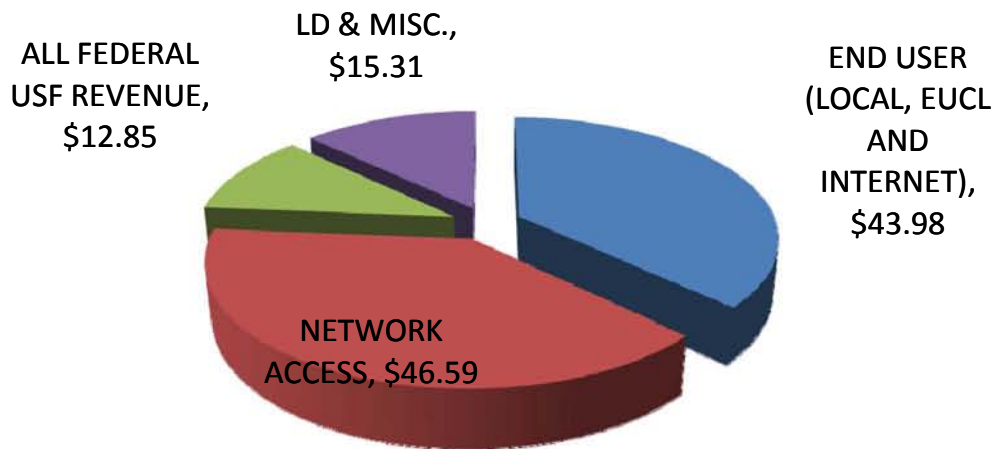
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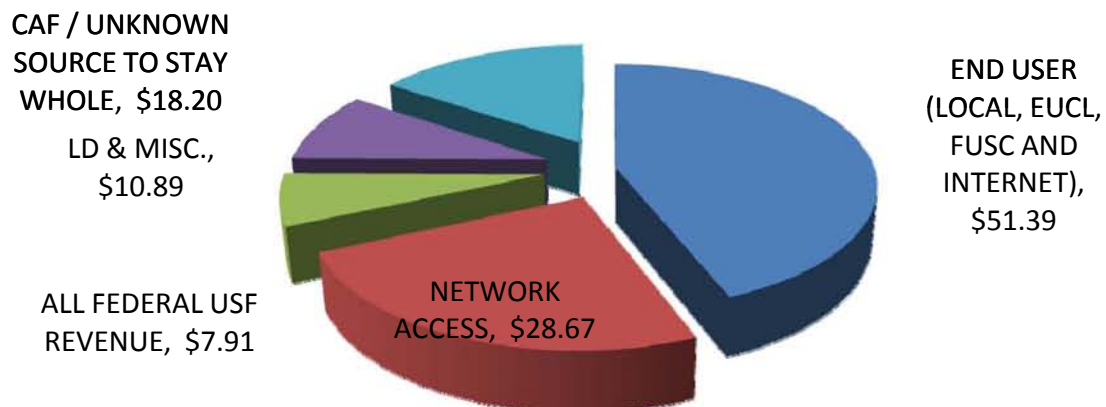
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Fidelity Telephone Company
WC Docket No. 10-90; GN Docket No. 09-51; WC Docket No. 05-337
July 12, 2010

FIDELITY TELEPHONE COMPANY 2009 Monthly Revenue Source Per Line



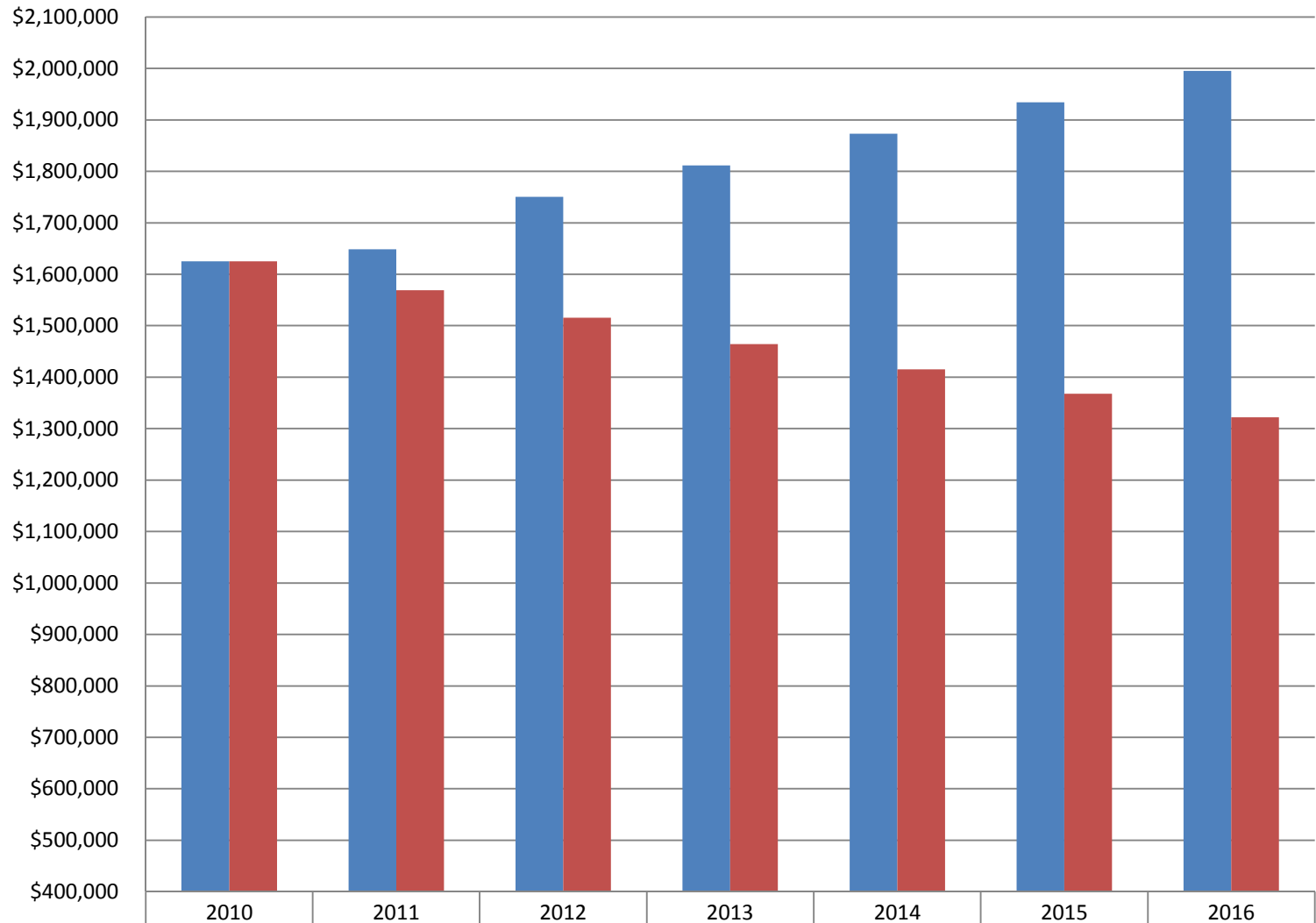
2015 Proposed Monthly Revenue Source Per Line



FIDELITY TELEPHONE COMPANY

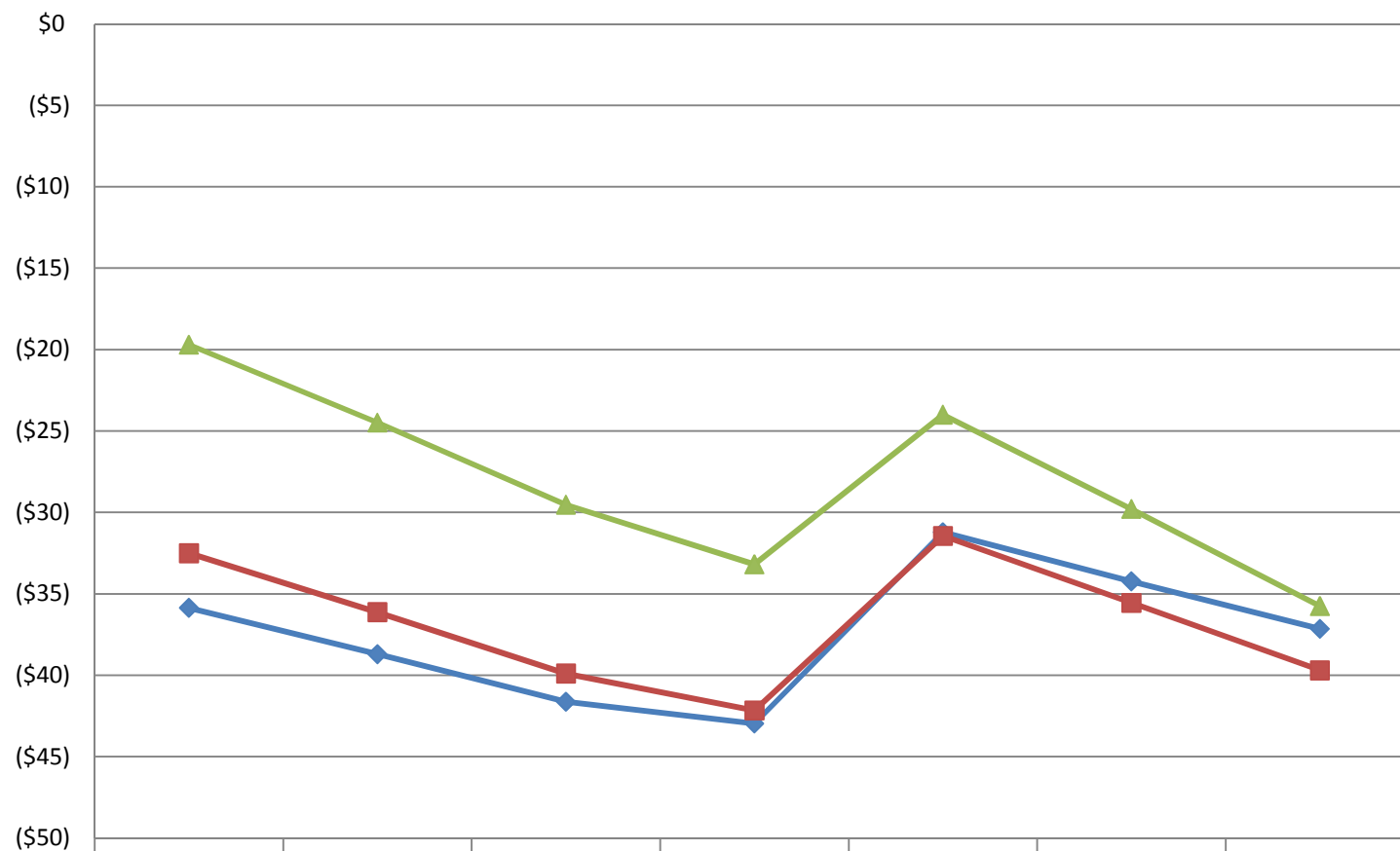
Exhibit II

Comparison of Current ICLS Projection vs. Frozen at 2010 Levels Per Line



■ Projected ICLS (unfrozen):	\$1,624,944	\$1,648,718	\$1,750,457	\$1,811,677	\$1,872,897	\$1,934,117	\$1,995,337
■ ICLS - frozen @ 2010 Per Line Amt	\$1,624,944	\$1,569,189	\$1,515,688	\$1,464,324	\$1,414,988	\$1,367,577	\$1,321,997

FIDELITY TELEPHONE COMPANY
Monthly Revenue Shortfall from Covering Expenses at Comparable
Rural/Urban/Wireless End User Benchmark Rates
(Does NOT Include any Return on Rate Base)

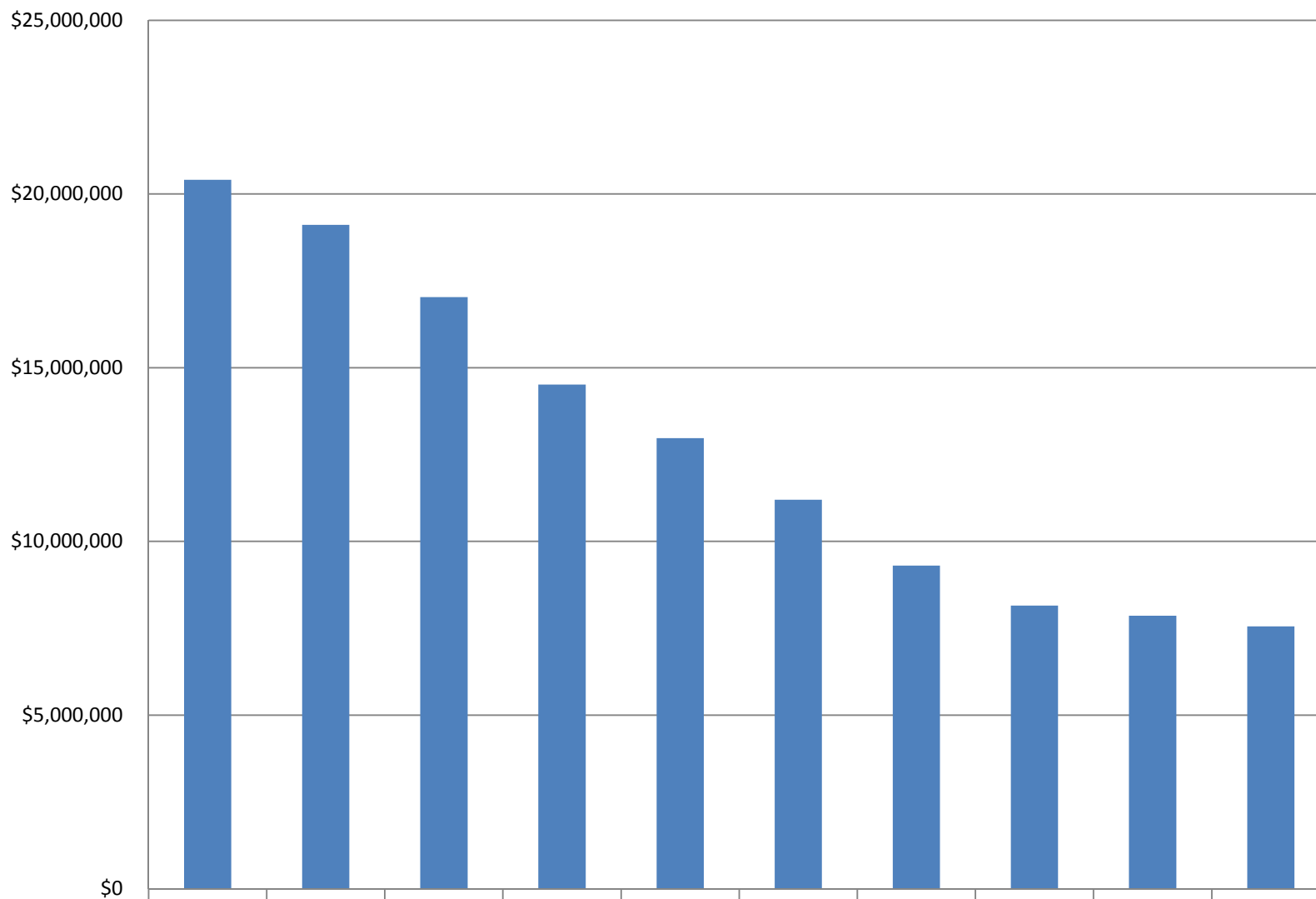


AT ILEC'S RATES	2010	2011	2012	2013	2014	2015	2016
AT AT&T'S RATES	\$(35.86)	\$(38.71)	\$(41.62)	\$(42.96)	\$(31.22)	\$(34.23)	\$(37.15)
AT SPRINT'S WIRELESS RATES	\$(32.51)	\$(36.13)	\$(39.89)	\$(42.16)	\$(31.44)	\$(35.57)	\$(39.70)
	\$(19.70)	\$(24.49)	\$(29.53)	\$(33.19)	\$(24.00)	\$(29.79)	\$(35.76)

FIDELITY TELEPHONE COMPANY

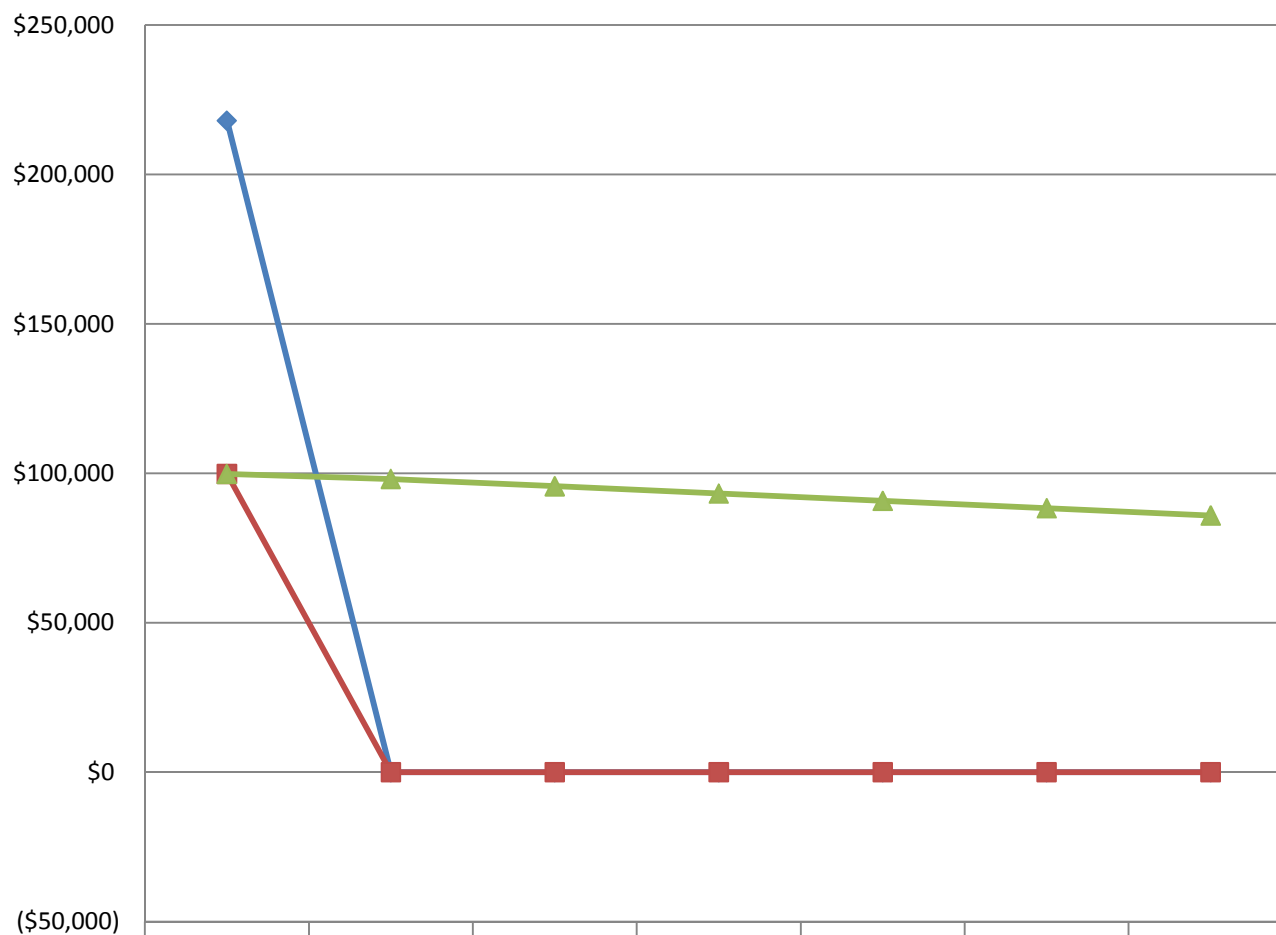
Projected Regulated Net Investment

Exhibit IV



■ Net Regulated Investment	\$20,413,06	\$19,114,56	\$17,034,99	\$14,513,45	\$12,974,90	\$11,197,74	\$9,307,207	\$8,154,655	\$7,865,630	\$7,555,154
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FIDELITY TELEPHONE COMPANY Projected High Cost Loop Support



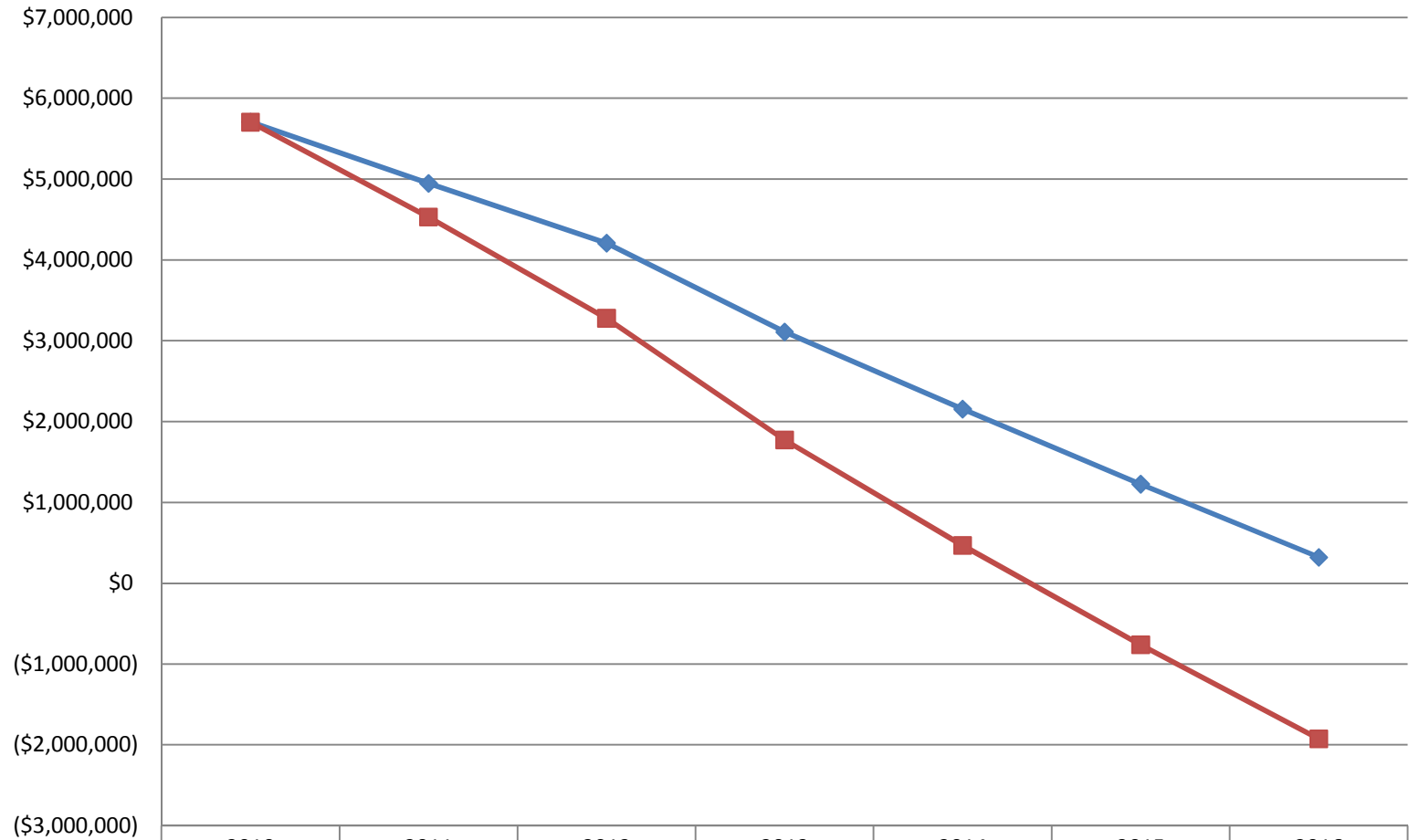
◆ HCL Support @ WGA Projected NACPL	\$217,975	\$0	\$0	\$0	\$0	\$0	\$0
■ HCL Support @ NECA's Projected NACPL	\$99,786	\$0	\$0	\$0	\$0	\$0	\$0
▲ HCL Support if Amount/Line Frozen @ 2010 Level	\$99,786	\$98,128	\$95,682	\$93,236	\$90,790	\$88,344	\$85,898

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Exhibit VI

Cash Flow Projection

(With ICLS Frozen, HCL, State and Interstate Access Reduced 10% Per Year)



◆ Business As Usual Cash Flow
 ■ NBP Cash Flow

	2010	2011	2012	2013	2014	2015	2016
Business As Usual Cash Flow	\$5,703,032	\$4,945,083	\$4,205,528	\$3,107,554	\$2,153,353	\$1,225,534	\$320,612
NBP Cash Flow	\$5,703,032	\$4,530,902	\$3,277,184	\$1,772,201	\$467,965	\$(761,293)	\$(1,926,310)